

## Epic Perfective of the Managers and Profit Management

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## 6 Abstract

7 The effect of different factors on earnings management behavior is investigated in the study.  
8 Two important questions are issued in this study whether the moral status of the person plays  
9 a role in the likelihood of earnings management and whether the professional obligations of  
10 individuals affects on decision of earnings management or not? And provide hypotheses  
11 regarding to the determinants of earnings management behavior are compatible with pattern  
12 of the study or not. It has tried to identify the effects of ethical ideology on decision of earring  
13 management and relation of professional commitments of person on such decisions. Method of  
14 the study is selective and non-probabilistic which review the reports and documents in the  
15 first phase and distribute a questionnaire between cement and petrochemical company  
16 financial managers in the second phase to investigate the affecting factors on earnings  
17 management behavior through Pearson's correlation test and multiple regression model and  
18 simple linear. This study used financial executives of 37 cement and petrochemical companies  
19 accepted in Stock based on a proposed causal model that support from moral judgment about  
20 the difficulties in accounting or management. It is demonstrated empirically that individuals  
21 with higher levels of professional commitment are less likely to engage in earnings  
22 management operations and contrary to this, individuals with lower levels of profession  
23 commitment are more likely to engage in earnings management operations that are consistent  
24 with previous background. In addition the effect of earnings manipulation has been proven on  
25 both the moral status and professional commitment on individuals. This study suggests that  
26 when there is an opportunity to increase personal wealth temptation affects negatively on the  
27 moral status of the individual as well as the individual's professional commitment level. This  
28 result provides a better view of the importance of the ethical status on the behavior o

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33 M. R. Shorvarzi ? Abstract-The effect of different factors on earnings management behavior is investigated in  
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### **3 B) DEPENDENT VARIABLE I. EARNINGS MANAGEMENT BEHAVIOR**

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49 when there is an opportunity to increase personal wealth temptation affects negatively on the moral status of  
50 the individual as well as the individual's professional commitment level. This result provides a better view of the  
51 importance of the ethical status on the behavior of earnings management and also provides a solution in the use  
52 of Code of Conduct for reducing earnings management.

53     Keywords: earnings management, ethic perspective, the moral status of idealist, relativistic moral position,  
54 professional commitment.

## **55 1 I. Introduction**

56     he growing spread of economic activities and their growing complexity on the one hand and the importance of  
57 attention to accurate accounting information and financial statements, on the other hand has caused analytical  
58 methods and modern management on accounting. One of the most Author : Accounting Department, Islamic  
59 Azad University of Neyshabur, Neyshabur, Iran. e-mail: fm\_sarlak@yahoo.com important inventions was  
60 emphasis and attention paid to income statement, which was previously turning to the balance sheet leads to  
61 something born and raised called, Earnings Management. Earnings management is defined as a process to take  
62 conscious steps within Accepted Accounting Principles (GAAP) to meet the desired level of reported earnings  
63 [1][2][3][4][5].

64     In a company whose profit levels does not meet analysts' forecasts, potential benefits arising from the  
65 manipulation of interest seem necessary, but is not a sufficient condition for such earnings management behavior.

66     The question arises in the present study: Whether the moral status of the person (beliefs and ethic values) as  
67 well as the level of professional commitment of individuals plays a role in the likelihood of earnings management  
68 behavior or not?

69     Therefore research pattern describes earnings management behavior as a performance of professional commitment,  
70 moral status, tendency to look bad to the current level of company's profit and the primary question  
71 posed in this way:

72     Are determinants of earnings management behavior compatible with the pattern of the study?

73     National Commission of Financial Reporting Fraud (1987) concluded that the earnings management decisions  
74 that are inconsistent with accepted principles of accounting tend towards a different decision which is trying to  
75 mislead the shareholders. So, if professional organizations or regulators could approve an effective set of standards  
76 or rules, then the future losses to shareholders may be minimized. This study attracts more importance because of  
77 the large losses suffered by investors in companies that are engaged in management methods of suspect earnings.  
78 The study has choice Non-contingent and selective type that the collection methods is the whole number given  
79 the limited availability of population data and the entire of the population include 30 individuals [6][7][8][9].

## **80 2 II. Variables a) Independent Variables i. Ethical status**

81     Fussy argues that an individual's moral ideology is determined by the relationship between idealism and  
82 relativism.

83     Thus a person with relativistic ethical orientation makes decision based on particular situation. It means these  
84 people are paying attention to the moral decisions that they are the best decision given the circumstances [10].

85     At the opposite end of the moral status chains of the individual with more idealistic ethical orientation  
86 consider all possible outcomes to determine whether everyone can ultimately reach to the worse position because  
87 of decision. Therefore they prefer not to adopt the decision where there is a risk of harm to others [11][12][13].

88     ii. Professional commitment According to Porter et al. definition, Professional commitment is defined as: (1)  
89 acceptance and confidence in the values and goals of a career. (2) A willingness to exert enough effort on the  
90 part of a career.

91     (3) A clear vision for the survival of professional membership.

92     Shob et al tested whether an auditor's ethical position affect the level of his professional commitment.

93     The study investigating the level of professional commitment and its impact on the earnings management by  
94 the individual's moral orientation develops the study of Shob, and colleagues.

## **95 3 b) Dependent variable i. Earnings Management Behavior**

96     According to Haley and Vahlen definition that is more comprehensive than others:

97     Earnings management occurs when managers use their own judgment in financial reporting and manipulate  
98 transactions structures to alter financial reporting. The purpose or intent is to mislead some stakeholders about  
99 the economic performance or impact on the results of contracts that their critical is subject to the achievement  
100 the personal profit [12][13][14][15].

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101 **4 III. Hypotheses**

102 The first hypothesis: " professional commitment is negatively related to earnings management behavior. "  
103 The second hypothesis: a) "people with an idealistic ethical orientation are less likely to manipulate earnings."  
104 b) "People with a moral relativist orientation are more likely to manipulate earnings."  
105 The third hypothesis: a) "There is a negative relationship between the moral status of idealism and self-  
106 interest." b) "There is a positive relationship between the moral relativism and self-interest."

107 Fourth hypothesis: "There is a negative relationship between professional commitment and personal interest."  
108 IV. Methods of Data Analysis

109 Hypotheses were analyzed by statistical methods of Pearson correlation test and multiple regression model  
110 and simple linear to investigate the effect of each factor by spss software. Also, Cronbach's alpha value of the  
111 present study by mentioned software is calculated equal to 876%.

112 **5 V. Results**

113 The results suggest that whatever the orientation of the individual's moral is more relativist, there are more likely  
114 to engage in earnings management practices and conversely, whatever the ethical orientation is more idealistic,  
115 there is less likely.

116 The results also support from the perspective that there is a profound relationship between professional  
117 commitment and earnings management behavior. This perspective suggests that individuals with a higher level  
118 of professional commitment demonstrate the lower likelihood of engaging in earnings management, the reverse  
119 situation is also true.

120 In the first hypothesis as the level of professional commitment increases, it is argued earnings management  
121 behavior reduces. The results support the view that higher levels of professional commitment desire to reduce  
122 their earnings management behavior.

123 In the second hypothesis, which has been argued as a person moves along the moral orientation chain (from  
124 the highest degree of idealism to the highest of relativism) likelihood of engaging in earnings management  
125 practices increased. The results support the second hypothesis. The moral orientation of relativist increases  
126 the likelihood of earnings management behavior. While on the other hand, the idealistic ethical orientation  
127 reduces the likelihood of earnings management behavior.

128 In the third and fourth hypotheses, we assume that the profit potential, professional commitment reduce the  
129 individual's ethical orientation. Therefore it causes increasing the earnings management practices. The results  
130 show that the incentive to increase the private benefits (possible to get more bonuses) increases tendency to  
131 engage in earnings management behavior.

132 Contingent or non-contingent earnings management behavior can be more observed by the managers that will  
133 benefit in the process of intervention and financial managers in the field are prior.

134 Hence, in this paper has tried to provide a model relying on survey data from 37 financial managers of cement  
135 and petrochemical companies to explain individual judgments. As in previous studies (Shop et al, 1993; Douglas  
136 and wire 2000 and Elias 2002), these results show deep relationship between moral orientation of the individual  
137 and the subsequent judgment. In line with the hypothesis, whatever the orientation of the individual's moral is  
138 more relativist, there is more likely to engage in earnings management practices and, conversely, whatever the  
139 ethical orientation is more idealistic, there is less likely. The results also support the view that there is a profound  
140 relationship between professional commitment and earnings management behavior. This perspective suggests that  
141 individuals with higher levels of professional commitment to apply its participation in earnings management is  
142 likely to be lower, the reverse of the situation is also true. These findings are consistent with previous work  
143 and correspond. According to the observations of Heele (1985) who has the ability and incentive to manipulate  
144 earnings are more likely to engage in earnings management practices. Especially, when they have personal  
145 interests in their decisions. The results of the current study are based on Haley's perspective. In this study, the  
146 manipulation of ideology and moral benefits associated with the level of professional commitment. This means  
147 that when there is an opportunity to increase their personal wealth, such action tends to be negatively related to  
148 the individual's moral ideology, that does not mean the fundamental transformation will occur from the highest  
149 degree of orientation idealistic ethical to orientation the highest levels of relativist. Rather, individual ethical  
150 orientation will turn to increase the likelihood of engaging in earnings management practices. In the current study,  
151 the decision to engage in earnings management practices is evident when personal income (bonuses) was affected  
152 by it. It develops our understanding of earnings management by plan a relevant moral dimension. In addition,  
153 it also develops previous studies on the relationship between ethical orientation, professional commitment and  
154 earnings management. The results support the hypothesis that the ethical orientation, professional commitment  
155 and personal gain, all help to explain the behavior of earnings management.

156 **6 a) Offers practical**

157 In conclusion, the results are important for the regulators, managers, employees, investors, analysts and  
158 researchers of the accounting rules and standards. With a better understanding of the potential impact of  
159 individual ethical orientation and professional commitment to the earnings management behavior, all stakeholders  
160 are in a better position to offer a possible alternative solution to modify the behaviors. Regulators of the

## 6 A) OFFERS PRACTICAL

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161 accounting rules and standards examine options that would cause to reduce undesirable behaviors in the standard  
162 setting process.

163 The board and senior management of the companies assess their organizational structure (proper decision,  
164 reward system and performance appraisal system) and whether this structure is designed to detect their immediate  
165 problems. In addition, the managers should assess policies and methods according to the principles of ethical,  
166 applicable standards and acceptable behavior within the company. Zygfoos (2001) concluded that the ethical  
167 standard affect on ethical decision-making process at each location. b) Recommendations for future research  
168 Fursys (1992) developed his 1980's study by dividing the position of ethical idealism and relativism into four  
169 distinct groups: (1) position-oriented (2) fantasy-oriented (3) absolute-oriented (4) niggling.

170 People with high scores on both the idealism and relativism are told position-oriented.

171 Position-oriented tends to reject laws or ethical code and search for best results or outcomes in any decision.  
172 ??Fursys 1992) People who score high on the scale of relativism and score low in idealism are fantasy-oriented,  
173 they also tend to reject moral rules and do moral judgments based on their personal feelings. (Fursys 1992)

174 Absolute-oriented people score low in relativism scale and high on a scale of idealism and believe that actions  
175 are moral when they provide positive effects conform to the global set of rules and moral standards. ??Fursys  
176 1992) The niggling people are the last group; they tend to low scores in both categories idealism and relativism.  
177 They believe that it is useful to follow the Code of Ethics, although there are exceptions to these rules. ??Fursys  
178 1992) Repetition of the research using these four groups in other areas is the proposal for future research to  
179 provide better understanding on the behavior of earnings management of accountants and managers.

180 Another potential area is interesting for future research, testing a number of different groups on the basis of  
181 such differences as public or private accountants, corporate and public managers (nonprofit), or other similar  
182 professions.

183 Finally, it is possible that variables that have been omitted from the current study can raise our understanding  
184 of decision-making about the earnings management.

185 Perhaps the background of organizational behavior be the source of the most interesting and useful factors  
186 that are able to be tested to explain more fully the behavior of managers in such situations.<sup>1</sup>

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